NATIONAL RESEARCH UNIVERSITY HIGHER SCHOOL OF ECONOMICS DEVELOPMENT CENTER

Commentary on State and Business

149

7th–26th February, 2018

Consensus Forecast

1. Lower interest rates are unlikely to stimulate economic growth

On 14th-22nd February the HSE Development Centre conducted its quarterly survey of professional forecasters' projections for the Russian economy in 2018-19, and the mid-term outlook to 2024. 26 experts from Russia and other countries participated in the survey.

The most significant change from the survey conducted in November last year was a reduction in 0.4 percentage points in the growth rate in 2022. This is because one of participants of the survey forecasts a recession in that year (a decline in GDP of 2%), which will also carry over into 2023 (as a result of which the forecast fell by 0.2 percentage points in that year). The forecast for this year and next is unchanged.

On the basis of the Consensus Forecast, Russia will not achieve 2% annual growth in the next seven years. This means that Russia's position in global economic rankings will steadily decline over a relatively long period. Even the most optimistic forecasters do not now anticipate growth of more than 2.5% a year.

The Consensus Forecast for inflation in 2018-19 has declined slightly compared with the previous survey, which is unsurprising given current price trends. However, from 2020 the consensus forecast returns to the previous level (around 4% a year), and even exceeds it towards the end of the forecast period. The experts surveyed do not appear to expect the Central Bank to reduce its inflation target, although such a scenario is quite possible: most economically stable countries that use inflation targeting aim for price growth of 2% a year.

The Consensus Forecast for the Central Bank's key rate assumes a significant reduction in 2018 (of 0.7 percentage points from the current level) and a further decline of 0.5 percentage points in 2019, after which, in the view of the forecasters, it will largely stabilise. The real interest rate will be slightly over 2%, which is significantly lower than the current level. Nevertheless, as noted above, a pick-up in growth is not expected. Thus, the establishment of a favourable macroeconomic environment may be insufficient to establish self-sustaining growth in Russia.

The most notable discrepancy between the Consensus Forecast and that of the Ministry of Economic Development is the latter's significantly lower oil price projection (the difference is over $15/barrel). Given that the federal budget is set on the basis of the low oil price projection from the Ministry of Economic Development, it is unlikely that revenue targets will be missed, and the risk of financial destabilisation appears low.

Composite Leading Indicator

2. A modest pickup in growth appears likely

In January 2018 the Composite Leading Indicator (CLI) rose from 2.5% to 3.6%, but it is unlikely that this is a sign of a significant acceleration in growth. It is likely that the positive shift in January, like the negative signals in November and December, will prove to be a blip. In January 2018 the most positive impulse came from oil prices. The average price of Urals in January was $69/barrel, 28% higher than in January last year. Current prices are a little below this level, but at this level Russia will avoid any adverse scenarios this year.

According to OECD surveys, new orders rose for a third month are in a row in January. If this trend is sustained, it will point to recovering domestic demand – the most important factor in economic growth. The expanding money supply and falling interest rates are providing tailwinds. The CLI suggests that a new recession is not imminent. On the other hand, there is currently no basis to expect a transition to sustainable and dynamic growth. At present, the most likely scenario remains weak growth with short positive and negative fluctuations.

Regional Economic Indicator

3. Stabilisation plus

In December 2017 the REA across Russia fell from 61.5 to 55.4. While this is a relatively small change, it confirms that the economic situation has stopped improving at the level around which the REA has fluctuated from March last year. Moreover, three of five major sectors remain under the critical 50% mark, as well as one of the eight federal districts, which indicates that some problem areas remain on both a territorial and sectoral level.

The industrial REA stood at 48%, indicating that the problems highlighted in November in this sector remain: in almost half of the regions economic activity has fallen compared with last year. There is a similar situation in construction (48%) and wholesale trade (46%). On the other hand, the improvement in retail trade (84%) has acquired a sustained character. In general, in all sectors except retail trade the situation is neither very bad nor very good.

On a federal district level, the worst performer was the Far Eastern federal district (47%). In the other districts, economic activity has risen compared with last year, particularly in the North Caucasus and Urals federal districts (60%).

On a regional level, the December REA index rose above 50% in 49 out of 82 federal subjects. There were no regions in which none of the five major economic sectors recorded growth; the number of regions where one sector grew rose from seven to 11 in December. The number of regions where either four or all five sectors recorded growth fell from 32 to 19. It should be noted that the number of regions in which four or five sectors of the economy are growing is significantly lower than is usual for a phase of steady economic growth. Although the general improvement in the economic environment is clear (in particularly in comparison with mid-2015), it is also evident that the recovery is moving slowly, and a significant number of regions remain in a state of stagnation. The most problematic regions with a REA of 0 or 20% accounted for 7.5% of Gross Regional Product in December, as they included such major regions as Tatarstan and Irkutsk Oblast. The most successful regions in December were Belgorod Oblast, Lipetsk Oblast, and Chelyabinsk Oblast, the

Republic of Karelia, Ingushetia, and Chuvashia. All five sectors recorded growth in these regions (REA=100%). In a further 13 regions four out of five sectors recorded growth (REA=80%). In total these two groups account for 34% of Gross Regional Product.

In 63 regions economic activity has grown on average over the past three months (October-December 2017), which is 77% of the total (the highest share since March 2014). Three regions recorded a REA of under 20% on average over the past three months (Oryol Oblast, Tomsk Oblast and the Republic of Tyva). The most successful regions (with a REA of over 80%) were Belgorod Oblast, Lipetsk Oblast and Kaliningrad Oblast, and the Republic of Karelia, Ingushetia and Chuvashia. Overall the depth and spread of the recession is declining, but relatively slowly.